

BEFORE THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

TESTIMONY  
OF  
THERESA L. O'BRIEN  
ON BEHALF OF VERIZON NEW ENGLAND INC.,  
d/b/a VERIZON RHODE ISLAND

JULY 1, 2002

DOCKET NO. 3179

Testimony

of

Theresa L. O'Brien

1 Q. Please state your name and business address.

2 A. My name is Theresa L. O'Brien. My office is located at 234 Washington Street,  
3 Providence, Rhode Island. My current position is Vice President – Regulatory  
4 Affairs.

5 Q. Please describe your educational and professional background.

6 A. I received my Bachelor of Science Degree in Accounting from Bentley College,  
7 Waltham, Massachusetts, in 1980, and later received a Master of Business  
8 Administration from Northeastern University. I began my career as a supervisor  
9 in Corporate Accounting at New England Telephone and Telegraph Company  
10 ("NET") in 1980 and held various assignments of increasing responsibility in  
11 Corporate Budgets, Marketing, Access Markets, and Public Relations before  
12 assuming the position of Director – Regulatory in May of 1995. In December  
13 2001, I was named Vice President – Regulatory Affairs.

14 Q. What is the purpose of your testimony?

15 A. The purpose of my testimony is to present Verizon Rhode Island's ("Verizon  
16 RI's") proposal for an alternative regulatory plan in response to the Commission's  
17 Order in Docket No. 3179 dated March 12, 2002. My testimony begins with a  
18 brief review of the history of price regulation in Rhode Island. I explain how the

1 telecommunications marketplace in Rhode Island has changed dramatically over  
2 the past several years, and how those changes affect the components for an  
3 appropriate regulatory plan for Verizon RI. In addition, I describe the specifics of  
4 Verizon RI's proposed regulatory plan. I also explain why this plan provides the  
5 operating and pricing flexibility the Company needs to compete in Rhode Island's  
6 competitive market, while continuing to provide customers with stability and  
7 appropriate protections. Finally, I introduce Verizon RI's other witnesses in the  
8 case, Mr. Silvia and Dr. Taylor, who in their respective testimonies discuss in  
9 detail the status of competition in the Rhode Island telecommunications market  
10 and the economic principles which support the regulatory framework Verizon RI  
11 is proposing.

12 **I. HISTORY OF REGULATION IN RHODE ISLAND AND THE CURRENT**  
13 **STATE OF COMPETITION**

14 Q. Describe the history of telecommunications regulation in Rhode Island and the  
15 progressive steps taken by the Commission to recognize the changing market  
16 conditions in the industry.

17 A. For many years, Verizon RI then NET, operated under traditional rate of return  
18 regulation. In 1989, the Public Utilities Commission altered the regulatory  
19 structure, approving a stipulation that permitted the Company to share in profits  
20 generated through efficiency and cost reductions for a three-year trial period  
21 (Order No. 13061, issued August 22, 1989). Thereafter, the Commission initiated  
22 a comprehensive review of telecommunications in the State of Rhode Island.  
23 Approval of a four-year Price Regulation Trial ("PRT") in which NET was

1 permitted certain pricing flexibility was the ultimate outcome (Order No. 14038,  
2 issued August 4, 1992). On October 30, 1995, the Commission opened a docket  
3 to consider the ongoing form of regulation appropriate for Verizon RI (then  
4 NYNEX), given the imminent expiration of the PRT on December 31, 1995. In a  
5 decision issued June 25, 1996 (Order No. 15020), the Commission approved a  
6 Price Regulation Plan (“PRP”) as the appropriate vehicle for regulating NYNEX.  
7 One of the provisions of the PRP eliminated the earnings sharing component that  
8 had existed under the PRT. Another provision implemented a service quality  
9 adjustment factor that would directly affect the price regulation index in the event  
10 that the Company’s service quality fell below specified levels. Verizon RI  
11 continued to be regulated under the terms of the PRP until the Commission  
12 approved the Price Regulation Successor Plan (“PRSP”) on September 14, 2000  
13 (Order No. 16390). The PRSP continued the regulatory framework under which  
14 Verizon RI’s tariffs and prices were regulated in the PRP, but included some  
15 additional Company commitments related to: (1) data network access funding of  
16 schools and libraries; (2) continuation of the Lifeline credit for low-income  
17 residential customers; (3) a \$5 million refund to residential basic exchange  
18 customers; and (4) sweeping calling area changes, among others. The PRSP  
19 expires on December 31, 2002, and in Order No. 16943 issued March 12, 2002,  
20 the Commission ordered Verizon RI to “file its proposal for rates, the appropriate  
21 regulatory model and service quality to go into effect January 1, 2003.”  
22

1 Q. What is the current state of competition in the retail telecommunications markets  
2 in Rhode Island?

3 A. As described in detail in the testimonies of Mr. Silvia and Dr. Taylor, the  
4 Telecommunications Act of 1996 (the “Act”) has dramatically and permanently  
5 altered the retail markets for telecommunications services in Rhode Island. Both  
6 facilities-based CLECs and Resellers are operating in Rhode Island, and the  
7 competition for retail consumers is spirited. Dr. Taylor discusses how in this  
8 changed market Verizon RI no longer holds the preeminent market position at the  
9 retail level. As noted in Dr. Taylor's testimony, the Company’s position in the  
10 market has been radically changed because: no barriers to competitive entry exist;  
11 competitive suppliers are present and active; and competitors have complete  
12 access to the market with no substantial investment requirements. As Mr. Silvia  
13 testifies, competition in the telecommunications marketplace in Rhode Island is  
14 widespread and vibrant, with carriers providing competition through resale,  
15 unbundled network elements (“UNEs”), and through their own facilities. In  
16 addition, Rhode Island has a cable company with a nearly ubiquitous presence  
17 across the state, offering telephone service in 34 out of the 39 cities and towns in  
18 Rhode Island.

19 Q. Should a new regulation plan for Verizon RI reflect the current competitive  
20 market?

21 A. Yes. Since the time the Commission adopted the PRP and PRSP, the market has  
22 continued to evolve, and significant changes have taken place as a result of the  
23 continuing growth of competition and the implementation of the Act. In light of

1 these changes, Verizon RI is proposing a new alternative regulation plan that  
2 recognizes the new competitive marketplace. Verizon RI's proposal represents a  
3 further step toward full market-based price regulation, while still providing  
4 safeguards to ensure that the Commission's telecommunication policy objectives  
5 continue to be met.

6 **II. DESCRIPTION OF THE ALTERNATIVE REGULATION PLAN**

7 Q. Please summarize the basic components of the Plan.

8 A. The Plan, which is presented as a stand-alone document in this filing, groups  
9 services into various categories with different levels of pricing flexibility. The  
10 services are grouped as follows:

11 1. Services limited to a \$2.00 per line increase over the next two years.

12 This category includes primary residence basic exchange lines. Two  
13 years after the effective date of the Plan, pricing for these services will  
14 be at the discretion of the Company in response to market conditions.

15 2. Services with prices capped at current levels for a period of two years.

16 This category includes residence measured local usage. Two years  
17 after the effective date of the Plan, pricing for this service will be at the  
18 discretion of the Company in response to market conditions.

19 3. Services with pricing restricted through revenue neutral filings. This  
20 category includes all Intrastate Switched Access Services.

21 4. Services subject to market-based prices. This category includes all  
22 other existing retail services as well as any new services introduced by  
23 Verizon RI.

1                   5. Services subject to the Federal Telecommunications Act of 1996. This  
2                   category includes unbundled network elements, interconnection with  
3                   the Company's facilities and equipment, and the Company's wholesale  
4                   (resale) discount.

5 Q.     Are there any circumstances under which the pricing rules described above would  
6     not apply?

7 A.     Yes. Rates for services that continue to be Price regulated (Primary Residence  
8     Basic Exchange, local usage and intrastate switched access services) could be  
9     increased or decreased to reflect the impact of exogenous events (Paragraph I of  
10    the Plan). This provision continues the exogenous adjustment that was included  
11    in the Price Regulation Trial, Price Regulation Plan, and Price Regulation  
12    Successor Plan approved by the Commission in prior years. As with previous  
13    price cap plans, any price adjustment to reflect an exogenous event would require  
14    Commission review and approval.

15 Q.    Are the price changes for "all other retail services" limited under the plan?

16 A.    No. Under Verizon RI's proposed Plan, the market would prescribe price changes  
17    for "all other retail services". Verizon RI would be permitted to adjust its rate  
18    levels for all other services in response to market conditions. Appendix A, pages  
19    3 through 6 of the Plan lists the services that fall into this category.

20 Q.    Please describe the treatment of new services under the Plan.

21 A.    As described in the Plan, new products and services filed by Verizon RI will be  
22    subject to the same pricing rules as "all other retail services". This provision is

1 consistent with the overall regulatory framework of the Plan, which provides  
2 Verizon RI with the ability to react quickly to marketplace changes.

3 Q. What is Verizon RI's proposal for charges that are not included in the existing  
4 PRSP, such as late payment charges and returned check charges?

5 A. In Order No. 15538, issued on February 26, 1998 in Docket No. 2370, the  
6 Commission ruled that Late Payment Charges and Returned Check Charges were  
7 properly classified as "terms and conditions" and not "services" to be included in  
8 the price regulation plan. As such, Verizon RI has excluded those charges from  
9 its proposed Plan, and will continue to update the Late Payment Charge annually  
10 via a tariff filing along with the methodology approved by the Commission for  
11 calculating that charge. Any proposed change to the Returned Check Charge  
12 would also require a tariff filing and Commission approval, as it does today.

13 Q. Verizon RI's proposal eliminates the indices that regulate prices under the  
14 previous pricing plan. Why is this proposal better suited to the current  
15 marketplace?

16 A. As Mr. Silvia and Dr. Taylor testify, the marketplace in Rhode Island has changed  
17 dramatically over the last five years following enactment of the Act. Barriers to  
18 entry have been removed, and Verizon RI is meeting its obligations under the Act  
19 to provide competing carriers with interconnection, UNEs, and resold services.  
20 As a result, competition exists throughout Rhode Island in all markets. Given the  
21 change in the marketplace, a price cap plan that dictates pricing changes, rather  
22 than permitting the market to drive price changes, is no longer an efficient  
23 regulatory framework. As explained by Dr. Taylor, continuation of the previous

1 pricing plan distorts and negatively affects competitive forces in the marketplace.  
2 Verizon RI's proposed Plan appropriately addresses market changes by permitting  
3 pricing flexibility for all retail services, with certain exceptions. For primary  
4 residence basic exchange services, Verizon RI has proposed safeguards that limit  
5 price increases to \$2.00 over the next two years. In addition, residence local  
6 usage rates have been capped at current levels for a period of two years following  
7 the effective date of the Plan.

8 Q. What is the impact of this proposal on Lifeline customers?

9 A. As indicated in Paragraph G of the Plan, there will be no impact on basic  
10 telephone service for Verizon RI Lifeline customers because Verizon RI is  
11 proposing that the Lifeline credit be increased by an amount equal to any increase  
12 in the primary residence basic exchange rate implemented in accordance with  
13 Paragraph A of the Plan.

14 **III. OTHER ELEMENTS OF THE PLAN**

15 Q. Does the proposed plan include a component for exogenous changes?

16 A. Yes. When the Commission approved the previous price cap plan and successor  
17 plan, it recognized that there were certain changes that were beyond the control of  
18 Verizon RI, and that Verizon RI should be granted relief from its pricing  
19 restrictions should those changes occur. The Plan contains provisions similar to  
20 the previous plan.

21 Q. Is there any difference in the exogenous change provision?

1 A. Yes. When the previous plan was filed, the word “cost” was intended to include  
2 any changes that affected revenues. The language is clarified to avoid any  
3 potential confusion and now refers to both costs and revenues.

4 Q. Does the Plan include a provision for the funding of data network access for  
5 schools and libraries?

6 A. Yes; however, Verizon RI is proposing an alternative mechanism for the  
7 subsidization of that program.

8 Q. Please describe the change that Verizon RI is proposing.

9 A. As the Commission is aware, the schools and libraries data network access  
10 program has been funded solely by Verizon RI since its inception in 1992. Given  
11 the sweeping changes in the competitive landscape that have occurred in the  
12 decade since the program was initially established, Verizon RI believes that the  
13 responsibility for the funding of that program should be borne by all  
14 telecommunications carriers in the state. In order to provide the Commission and  
15 Division with a sufficient period of time to investigate and determine an equitable  
16 mechanism by which to fund internet access for Rhode Island K-12 schools and  
17 public libraries going forward, Verizon RI is proposing to continue its voluntary  
18 subsidization of that program for a period commencing with approval of this Plan  
19 and ending June 30, 2003. Verizon RI’s commitment to the program shall not  
20 exceed \$1.0 million for the period from January 1, 2003 to June 30, 2003.

21 Q. Does the Plan contain a service quality component?

22 A. Yes. In Order No. 16943, the Commission directed Verizon RI to include in this  
23 filing a proposal for service quality to go into effect January 1, 2003. Verizon RI

1 does not believe that there is a need for the Commission to retain retail service  
2 quality standards given the extremely competitive market in Rhode Island. The  
3 evidence in the case demonstrates that Rhode Island is at the point where  
4 competitive forces, rather than government regulation, are sufficient to discipline  
5 Verizon RI, and the Commission should permit Verizon RI to compete on equal  
6 terms with other carriers – none of whom are subject to service quality standards.  
7 However, if the Commission determines that such a plan is warranted, the existing  
8 service quality plan should be retained subject to the modifications discussed  
9 below.

10 **IV. THE SERVICE QUALITY COMPONENT OF THE PLAN**

11 Q. Please describe the level of service Verizon RI has provided to its retail customers  
12 during the term of the Price Regulation Plan and Price Regulation Successor Plan.

13 A. Verizon RI's service quality has been excellent. Since the beginning of the Price  
14 Cap Plan in 1996, Verizon RI failed to meet the Commission's performance  
15 standards in only two out of the past 76 months. The two months in which  
16 Verizon RI failed to meet the Commission's performance standards were February  
17 and April of 1996. In February and April 1996, the service quality index ("SQI")  
18 fell short of the minimum level due in large part to Out of Service Not Cleared  
19 within 24 Hours, Missed Repair Appointments, and Repair Service Answer Time.  
20 Significantly, however, the Company demonstrated substantial improvement in  
21 meeting the Commission's standards by achieving and, in many cases, far  
22 surpassing the minimum SQI level in all of the past 72 months. In fact, the  
23 quality of service provided by Verizon RI has reached all-time highs, simply

1 because the market demands it. Attachment 1 depicts the improved service levels  
2 since the beginning of the Price Cap Plan in January of 1996.

3 Q. Please describe the efforts undertaken by Verizon RI to meet the marketplace  
4 demands for quality service.

5 A. Although the Price Regulation Plan and Price Regulation Successor Plan adopted  
6 by the Commission did not require specific investment commitments, Verizon RI  
7 has continued to invest in Rhode Island. Since the introduction of the PRP,  
8 Verizon RI has invested almost \$500 million in Rhode Island to meet the needs of  
9 our customers. Investments have targeted every major area of the network.  
10 Through aggressive switching investments, Rhode Island became the first state in  
11 the nation to achieve a 100 percent digital switching platform in 1995. Extensive  
12 switch investments have also been made in Providence, Pascoag, Narragansett,  
13 and Westerly, among others. Investments in the Outside Plant -- the portion of the  
14 network from the local central office to the customer's location -- have focused on  
15 the deployment of fiber optic cables and advanced technologies, such as Digital  
16 Loop Carrier ("DLC") systems. Verizon RI now has over 92,000 miles of fiber  
17 cables in place across Rhode Island and over 142,000 lines are served by DLC  
18 systems. These and other investments have provided Verizon RI with the ability  
19 to meet the ever-increasing service demands of our customers.

20 Q. Please describe the current Service Quality Plan.

21 A. The Service Quality Plan adopted by the Commission in Docket No. 3179 for use  
22 in the PRSP contained certain modifications to the Service Quality Plan that had  
23 been in place since the original PRP in 1996. These modifications included a

1 tightening of various standards and thresholds as well as an increase in the  
2 minimum SQI level. The current Service Quality Plan consists of eight statewide  
3 service measures and one additional measure reported on an individual exchange  
4 (wire center) basis. These service measures cover the following three categories:  
5 Installation, Maintenance, and Operator Services. Additional customer survey  
6 measurements are also reported but are not a factor in the determination of the  
7 SQI. Under the Service Quality Plan, the overall SQI is determined by scoring  
8 Verizon RI's performance on each of the 9 service measures against established  
9 standards. Points are assigned to each individual measure and combined to  
10 produce a monthly SQI score. The maximum number of points that Verizon RI  
11 can achieve in any one month is 42. The Commission determined that an  
12 appropriate level of overall service quality performance would be met when  
13 Verizon RI's SQI was 28 points. In addition, there is further monitoring of  
14 Verizon RI's performance in three repair/maintenance areas: Out of Service Not  
15 Cleared within 24 Hours, Missed Repair Appointments, and Repair Service  
16 Answer Time. If the Company receives 0 points in at least two of these three  
17 service categories for consecutive months, the Company incurs an additional  
18 performance payment obligation.

19 Q. Must the mechanism for issuing a credit to customers be changed under the new  
20 Plan?

21 A. Yes. The Service Quality Plan adopted in 1996, and further modified in 2000,  
22 included a provision that required an increase in the service quality adjustment  
23 factor of 1/12 of 0.5% for each month in which the SQI level failed to reach the

1 Commission approved threshold of 28. Since Verizon RI's proposed Plan does  
2 not include a pricing formula, it is necessary to adopt a new mechanism that  
3 provides the same relative credit level. As described in Appendix B of the Plan,  
4 the new Service Quality Plan will provide a performance payment obligation of  
5 1/12 of .5% of total annual retail revenue for each month of the year in which the  
6 overall performance level is less than 28 points, or if the Company receives 0  
7 points in at least two of the three maintenance/repair categories for consecutive  
8 months. The payment obligation will take the form of an annual bill credit to all  
9 residence and business lines in service at the time of the credit.

10 **V. CONCLUSION**

11 Q. Please summarize the benefits of the proposed Plan.

12 A. The Plan:

- 13 1. Provides another significant step toward market-based pricing for  
14 telecommunication services in Rhode Island;
- 15 2. Provides a number of safeguards for residence customers;
- 16 3. Allows Verizon Rhode Island some measure of pricing latitude that  
17 its competitors already enjoy, while requiring the Company to assume  
18 significant competitive risks;
- 19 4. Better reflects today's telecommunications environment; and permits  
20 the marketplace to react to competitive offerings and prices; and
- 21 5. Provides for continued Service Quality assurance.

22 The Plan moves the pricing of telecommunication services closer to market-based  
23 pricing which should ultimately benefit all consumers in Rhode Island. It allows  
24 Verizon RI to respond to the pricing and services offered by competitors  
25 providing for greater consumer choice. The widespread competition that is

1           occurring in Rhode Island will only grow in the future, and new regulations must  
2           adapt to the ever-changing market. Verizon RI's Plan provides an appropriate  
3           regulatory framework for today's marketplace and the flexibility needed to  
4           compete in that marketplace.

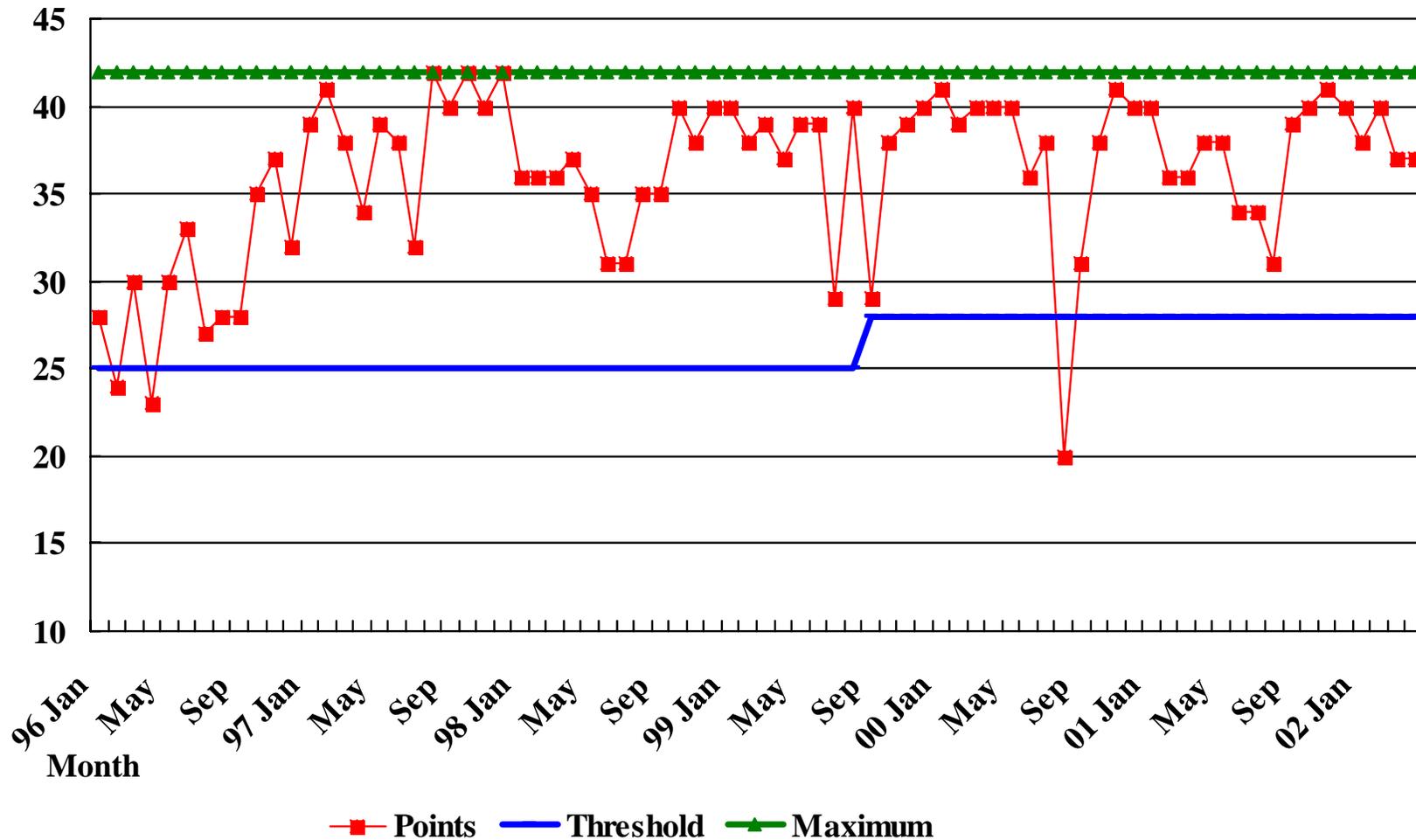
5    Q.    Does this conclude your testimony?

6    A.    Yes.



# Rhode Island SQI Performance

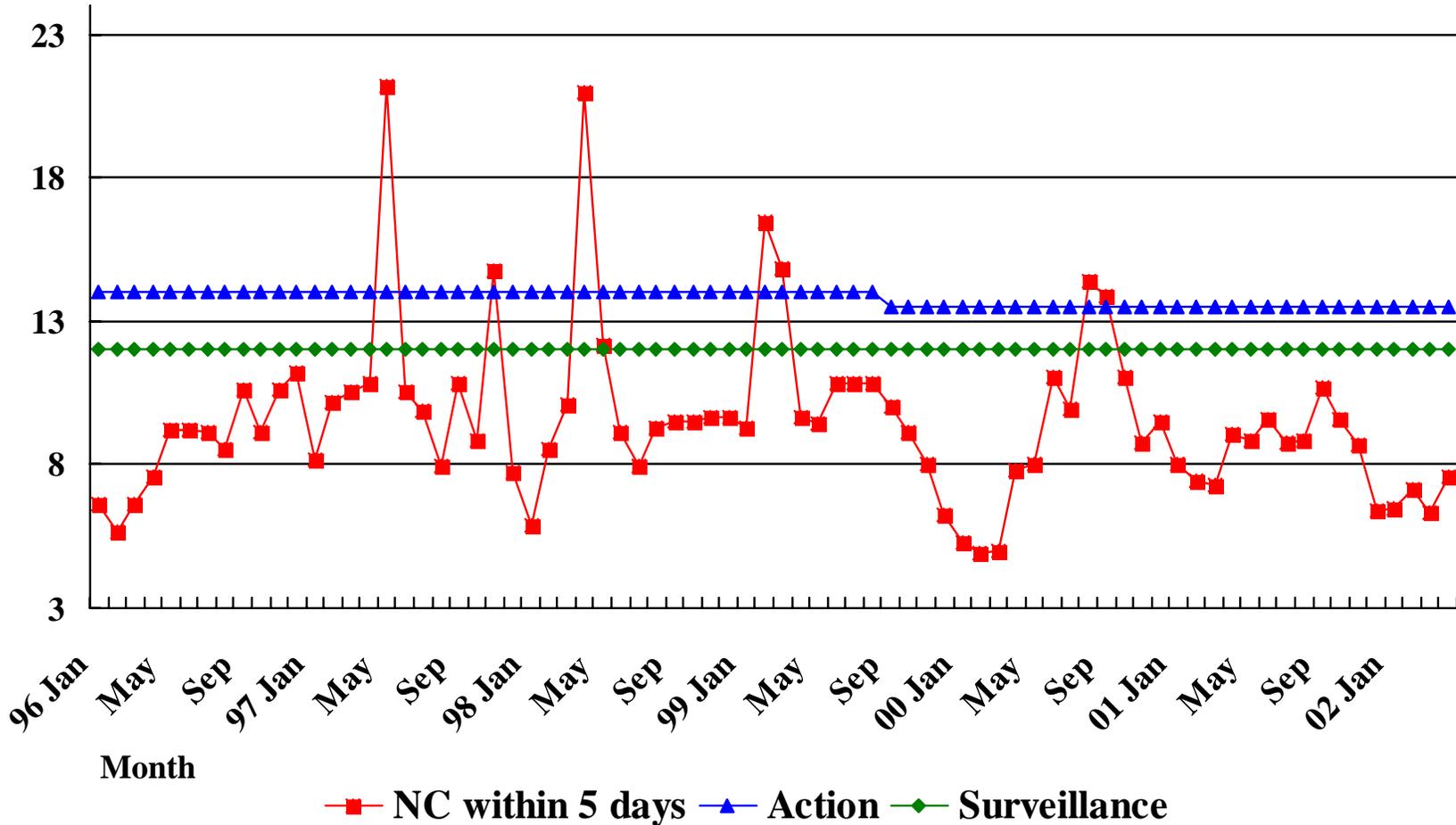
SQI Points





# RI Installation Orders Not Completed Within 5 Days

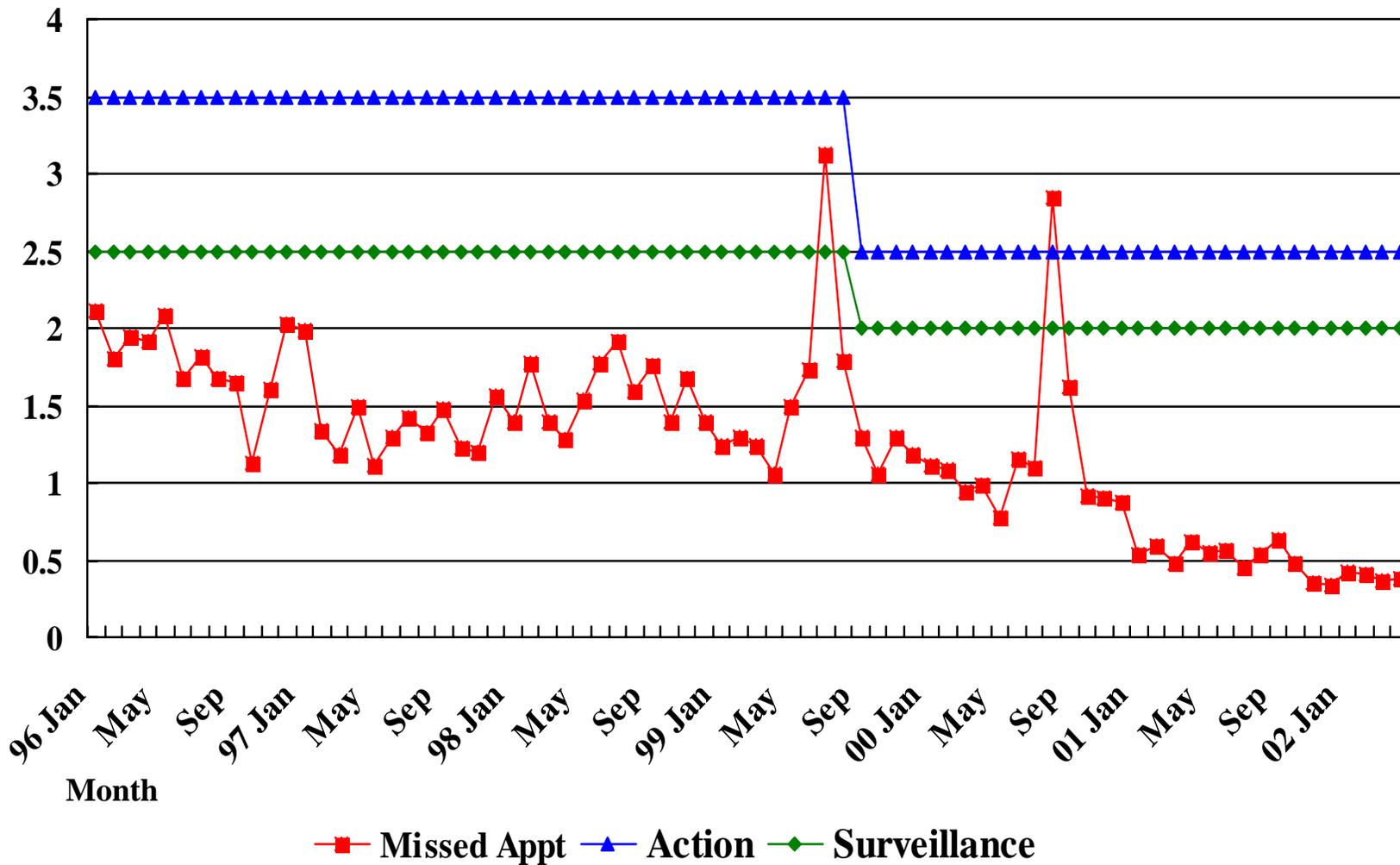
% Orders NC





# RI Missed Installation Appointments

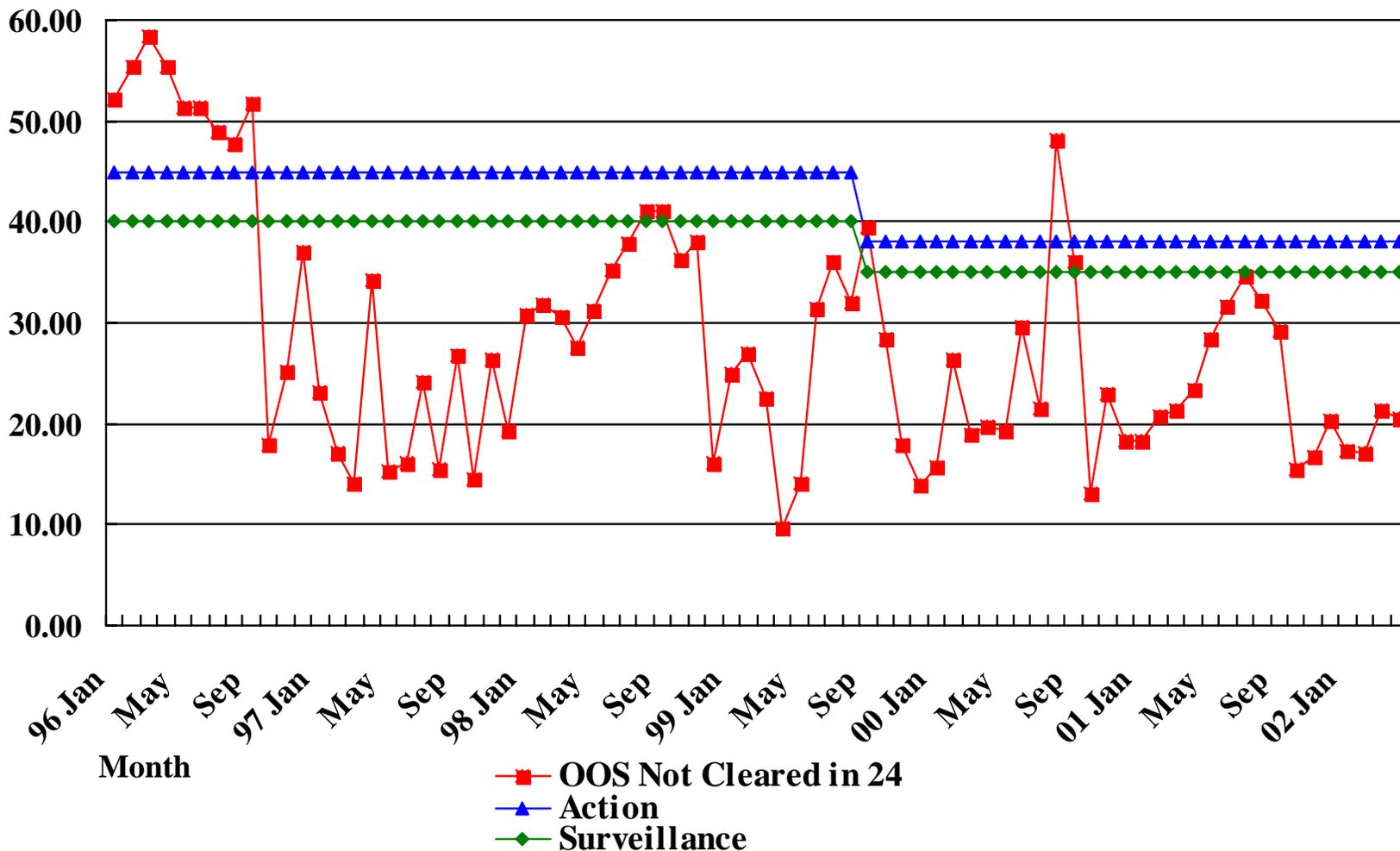
% Missed Appt.





# RI Out of Service Not Cleared in 24 Hours

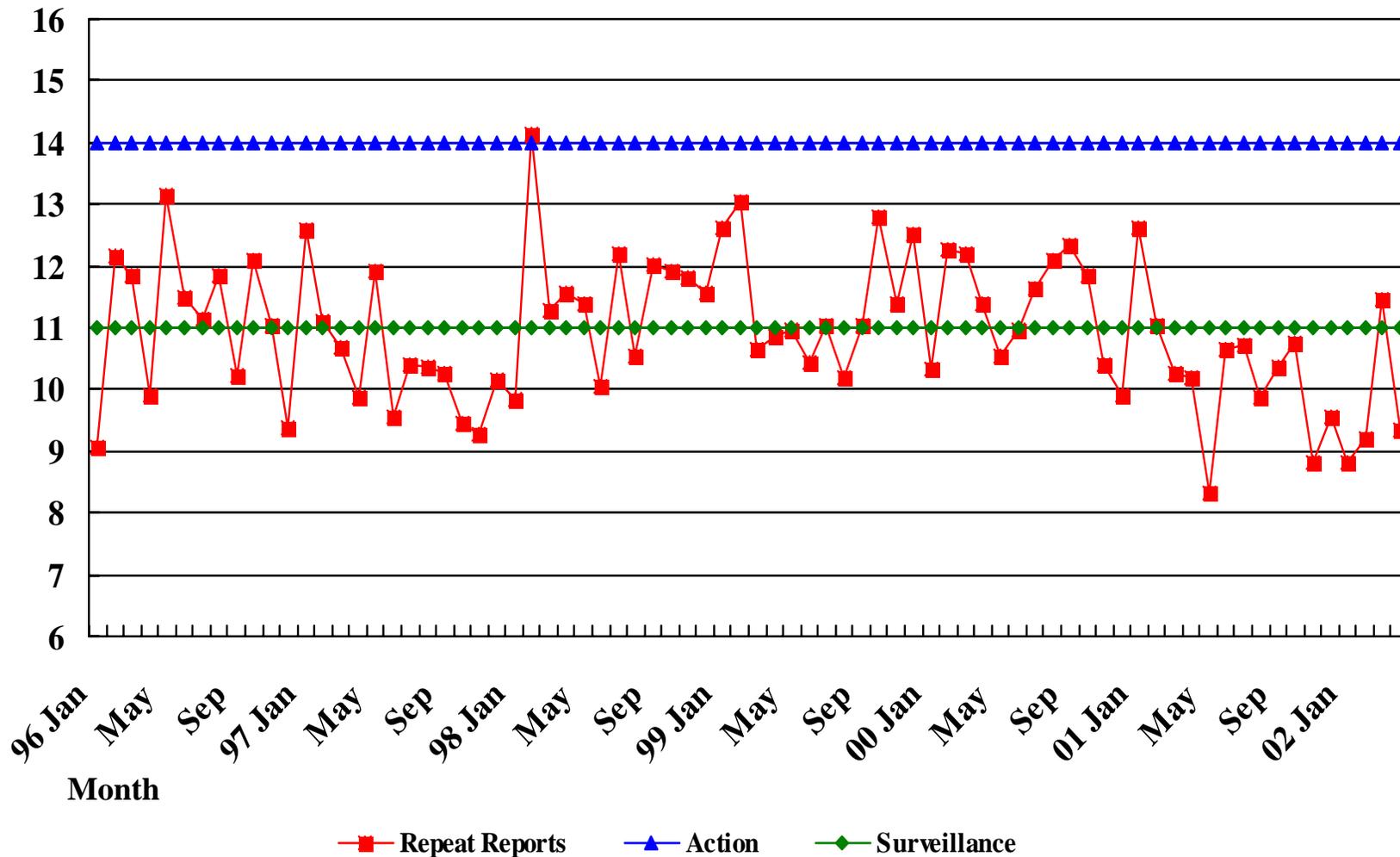
% Not Cleared in 24 Hours





# RI Repeat Reports

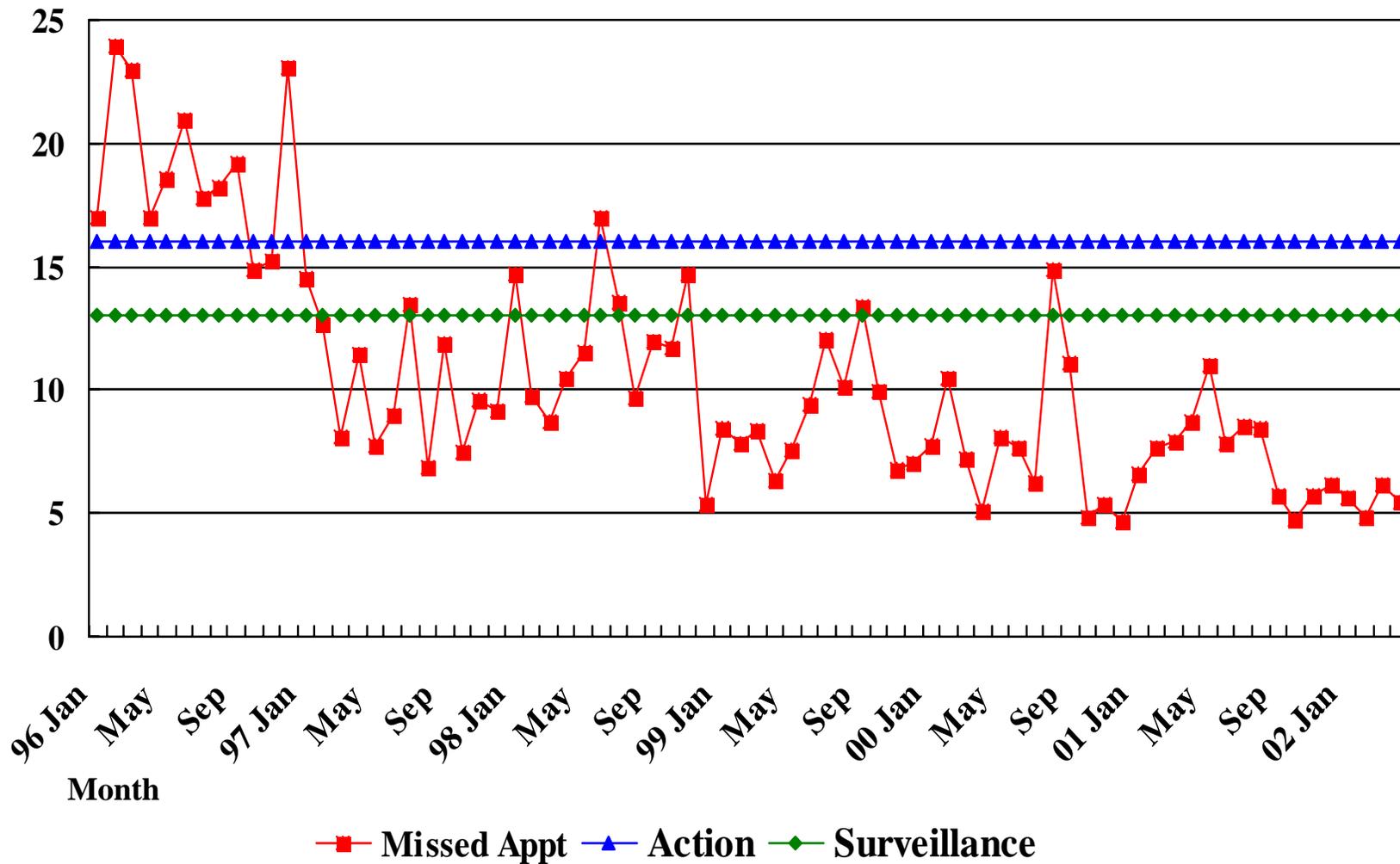
% Repeat Report





# RI Missed Repair Appointments

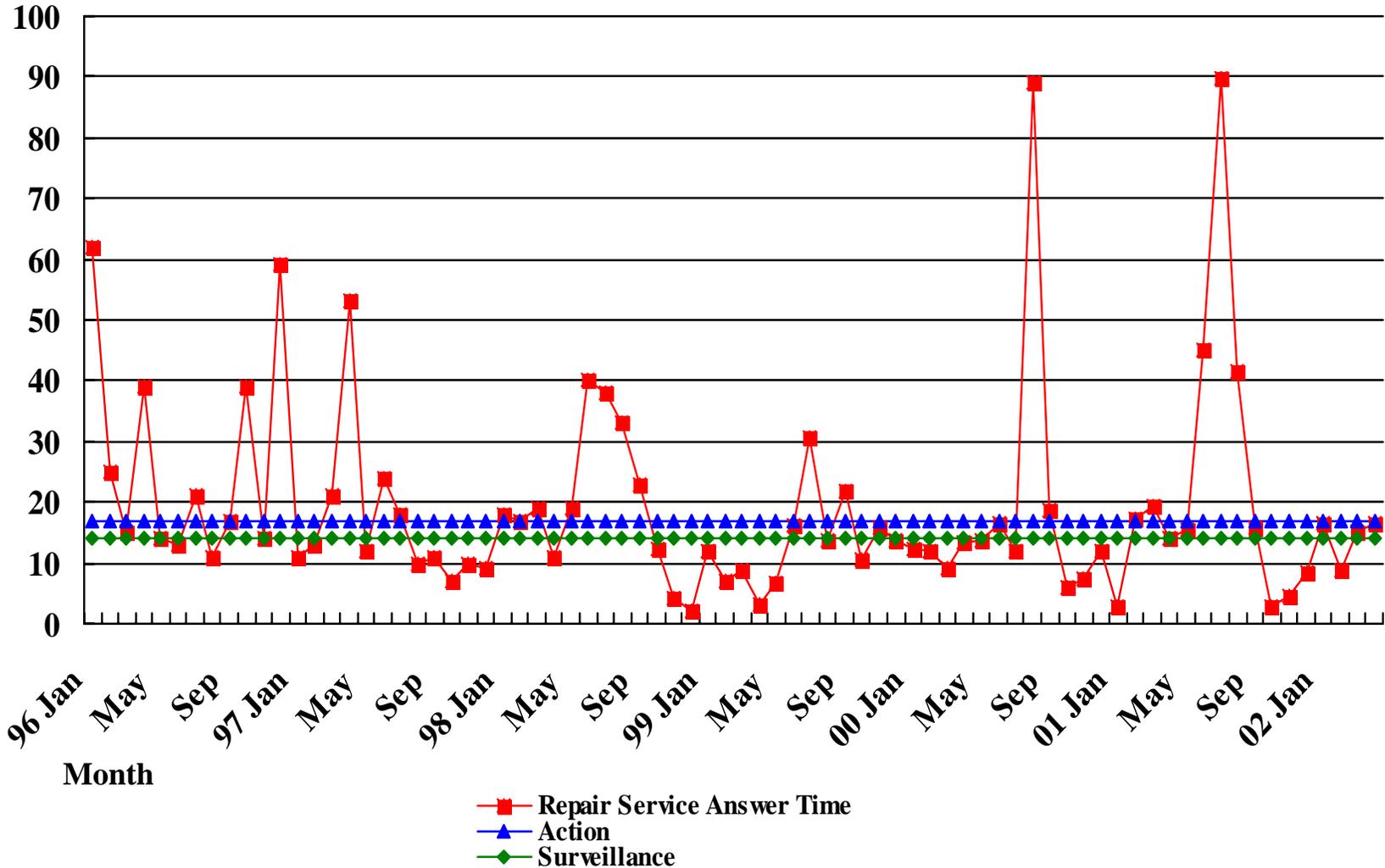
% Missed Appt.





# RI Repair Service Answer Time

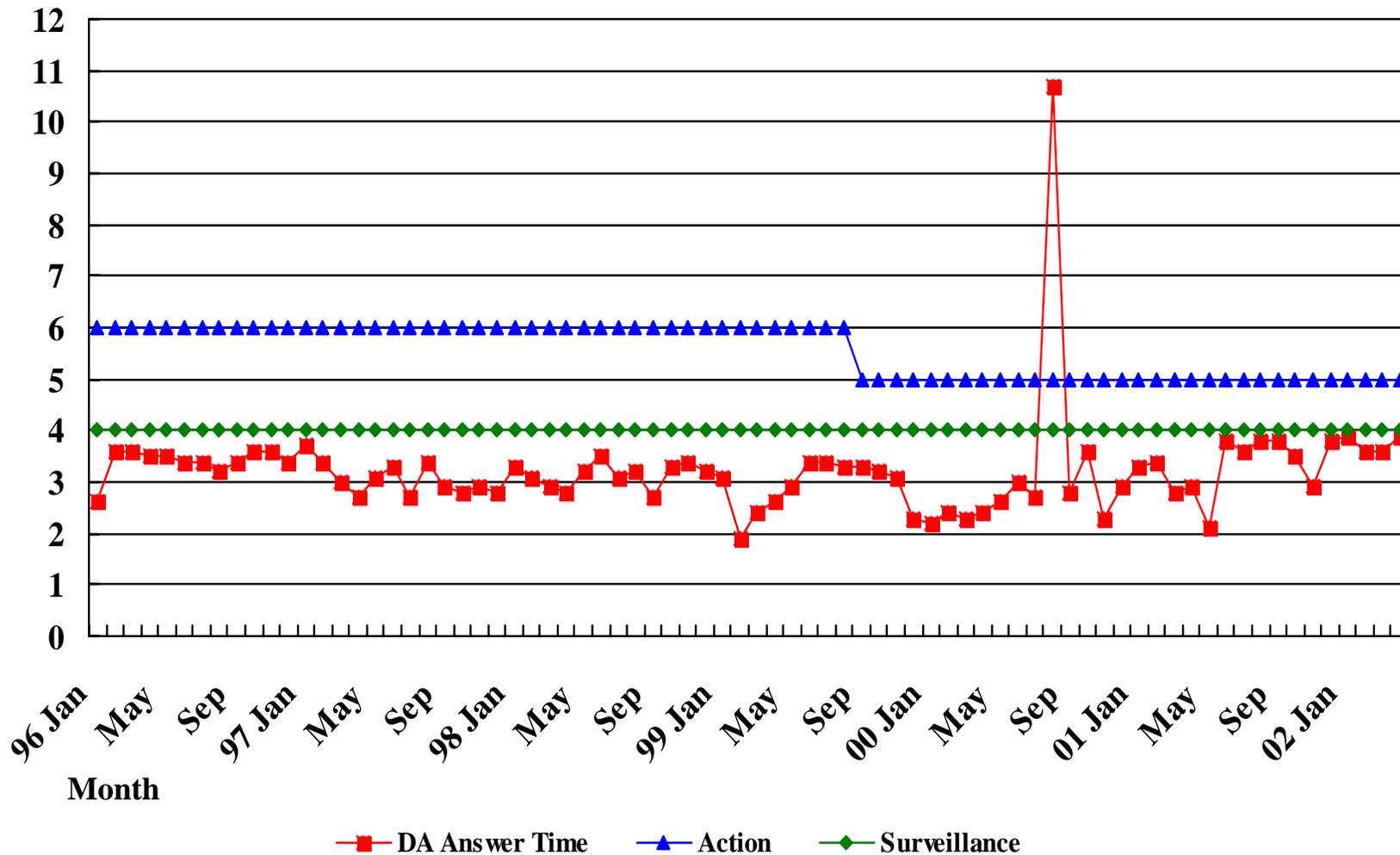
Repair Answer Time (seconds)





# RI Directory Assistance Answer Time

DA Answer Time (seconds)





# RI Special Access Mean Time to Repair

MTTR (hours)

